

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 INT-08 FEA-02 SCI-06

FPC-01 NIC-01 DRC-01 /184 W
----- 090473

R 201315Z MAY 74

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 1318

USDOC WASHDC

INFO AMEMBASSY BUCHAREST

..AMEMBASSY MOSCOW 1369

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

USMISSION BERLIN

AMCONSUL MUNICH

LIMITED OFFICIAL USE BUDAPEST 1239

E.O. 11652: N/A

TAGS: HU, ECON

SUBJ: HUNGARY ANNOUNCES MAJOR PRODUCER PRICE INCREASES

VIENNA FOR EWTC

1. SUMMARY: AS OF JAN 1, 1975, HUNGARY WILL SIGNIFICANTLY INCREASE PRODUCER PRICES FOR OIL, OIL PRODUCTS, NATURAL GAS, CERTAIN CHEMICALS, METALS, AND MATERIALS FOR THE CLOTHING INDUSTRY. THE PRICE RISES WILL RANGE FROM BETWEEN 10 PER CENT TO NEARLY 100 PER CENT. AT SAME TIME FIXED ASSET TAX PAID BY HUNGARIAN ENTERPRISES WILL BE REDUCED BY ABOUT 30 PER CENT. PRIMARY PURPOSE OF THESE STEPS IS TO REDUCE
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DIRECT SUBSIDIES PAID BY CENTRAL GOVERNMENT TO

ENTERPRISES AS COMPENSATION FOR HIGH RAW MATERIAL COSTS
AND TO HAVE HUNGARIAN PRICES MORE ACCURATELY REFLECT
PREVAILING WORLD MARKET PRICES. END SUMMARY.

2. IN MEETING AT HUNGARIAN CHAMBER OF COMMERCE MAY 14,
CHIEF OF OFFICE OF MATERIAL AND PRICES BELA CSIKOS-NAGY
ANNOUNCED
BTOBV PRODUCER PRICES OF FUELS AND ENERGY
METALLURGICAL MATERIALS AND CHEMICALS AND BASIC MATERIALS
FOR CLOTHING WOULD ALL BE INCREASED SIGNIFICANTLY AS OF
JANUARY 1, 1975. THE PRODUCER PRICE OF OIL WILL INCREASE
FROM 716 FORINTS TO 1436 FORINTS PER TON WHILE PRICES
ON HEATING OIL, DIESEL FUEL AND NATURAL GAS WILL GO UP
BY 50 PER CENT. THE COST OF COAL AND FIREWOOD WILL INCREASE
BY 15-20 PER CENT, RESPECTIVELY. PRODUCER PRICES OF MANY BASIC
MATERIALS FOR THE CHEMICAL INDUSTRY SUCH AS PVC POWDER,
PHENOL, POLYETHYLENE WILL GO UP BETWEEN 35 AND 75 PER CENT. THE
PRICE OF METALLURGICAL PRODUCTS WILL RISE BY 10 PER CENT AND THAT
OF THE THE ALUMINUM INGOTS BY 25 PER CENT. MATERIALS USED BY THE
CLOTHING INDUSTRY WILL ALSO INCREASE SIGNIFICANTLY IN
PRICE, HOWEVER, THE PERCENTAGES OF THESE JUMPS HAVE NOT
YET BEEN GIVEN.

3. TO COUNTERBALANCE THE ABOVE PRICE INCREASES, THE TAX
OF FIXED ASSETS PAID BY HUNGARIAN ENTERPRISES WILL BE
REDUCED AS OF JANUARY 1. WHILE THE RATE OF TAXATION
WILL REMAIN AT THE CURRENT LEVEL OF 5 PER CENT, ENTERPRISES
WILL NOW BE PERMITTED DEDUCTIONS FOR THE AMORTIZATION OF
THEIR ASSETS AS WELL AS INTEREST ON CURRENT LOANS WHICH
HAVE BEEN TAKEN OUT TO PAY FOR THESE CAPITAL GOODS. IT
IS EXPECTED THAT THESE MODIFICATIONS WILL REDUCE TOTAL
PAYMENTS OF THE FIXED ASSET TAXES BY HUNGARIAN ENTERPRISES
BY ABOUT 30 PER CENT OR TEN BILLION FORINTS.

4. CHIEF ECONOMIC EDITOR OF NEPSZABADSAG RPT NEPSZABADSAG TOLD
EMBASSY OFFICER MAY 17 THAT IT WAS HOPED THESE RECENTLY ANNOUNCED
MODIFICATIONS WILL DECREASE BY AT LEAST TEN BILLION FORINTS
CENTRAL GOVERNMENT SUBSIDIES TO INDUSTRIES FOR THE PURPOSE
OF OFF-SETTING HIGHER COSTS OF RAW MATERIALS IMPORTED
OUTSIDE THE CEMA AREA. SUCH SUBSIDIES WHICH TOTALLED
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SIX BILLION FORINTS IN 1973 ARE EXPECTED TO RISE TO ABOUT
20 BILLION FORINTS, OR 9 PER CENT OF TOTAL BUDGETARY EXPENDITURES,
IN 1974.

5. CSIKOS-NAGY EMPHASIZED THAT THIS ADJUSTMENT OF PRICES
SHOULD NOT BE INTERPRETED AS GENERAL ADJUSTMENT OF
PRODUCER PRICES BUT RATHER AN ATTEMPT TO REALISTICALLY
INCLUDE THE PRICE OF RAW MATERIALS IMPORTED FROM THE WEST

IN THE CALCULATION OF COSTS. THESE PRICE ADJUSTMENTS WERE INTENTIONALLY AVOIDING PRODUCTS SUCH AS SUGAR WHICH ARE IMPORTED MAINLY FOR GENERAL CONSUMPTION. CSIKOS-NAGY EMPHASIZED THAT IF THESE RISES HAD NOT BEEN ANNOUNCED IT WOULD HAVE BEEN NECESSARY TO CONTINUE TO INCREASE THE EXTENT OF DIRECT CENTRAL INTERVENTION IN THE ECONOMY THROUGH SUBSIDIES WHICH HE CONCLUDED WOULD WEAKEN ECONOMIC EFFICIENCY.

6. COMMENT: PRICE INCREASES AND ACCOMPANYING REDUCTION IN TAXES ON FIXED ASSETS FOR THE PURPOSE OF REDUCING THE DIRECT SUBSIDIES FROM CENTRAL BUDGET IS A MOVE WHICH MOST CONSISTENT WITH THE UNDERLYING PRINCIPLES OF HUNGARY'S ECONOMIC MECHANISM AND GIVES SOME SUPPORT TO THE REPEATED ASSERTIONS MADE TO US BY TOP GOH OFFICIALS THAT, IN SPITE OF MARCH'S PERSONNEL CHANGES, BASIC ECONOMIC POLICY WILL REMAIN UNCHANGED. WHILE IT REMAINS TO BE SEEN HOW MUCH RECENT STRESS ON THE NEED FOR INCREASED FACTORY DEMOCRACY WILL RESTRICT ENTERPRISE INDEPENDENCE, THIS MOVE IS CLEARLY AIMED AT PREVENTING ENTERPRISES FROM BECOMING OVERLY DEPENDENT ON CENTRAL GOVERNMENT HANDOUTS.
PEDERSEN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RAW MATERIALS, PETROLEUM, ENERGY, PRICE TRENDS, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUDAPE01239
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740124-1036
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740535/aaaabelm.tel
Line Count: 138
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAR 2002 by collinp0>; APPROVED <08 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HUNGARY ANNOUNCES MAJOR PRODUCER PRICE INCREASES VIENNA FOR EWTC
TAGS: ECON, HU
To: STATE COM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005